

# **EXHIBIT A**

# **EXHIBIT A**

**SUMMARY REPORT FORMAT**

**OF**

**“AS IS “ BULK OR WHOLESALE MARKET VALUE OF 27 FRACTIONAL  
INTERESTS, 2 DWELLINGS PARTIALLY COMPLETE (60%), 4 FINISHED  
RESIDENTIAL LOTS SLABBED AND STUBBED UP, AND 9 VACANT FINISHED  
LOTS AND THE “AS IF COMPLETE” BULK OR WHOLESALE MARKET VALUE  
OF 135 PROPOSED FRACTIONAL UNITS AND THE “AS IF COMPLETE” BULK OR  
WHOLESALE MARKET VALUE OF 162 PROPOSED FRACTIONAL UNITS  
(INCLUDING 9 MODEL HOME FRACTIONAL INTERESTS) LOCATED AT THE  
RESIDENCE CLUB WITHIN PGA WEST GOLF RESORT  
WITHIN THE CITY OF LA QUINTA, CA  
RIVERSIDE COUNTY, CALIFORNIA  
92253**

**EFFECTIVE DATE OF THE APPRAISAL**

**DECEMBER 1, 2009**

**DATE OF THE REPORT**

**DECEMBER 15, 2009**

**DOZIER FILE NUMBER L-09-127 - LHP**

**PREPARED FOR**

**SPECIALTY FINANCIAL  
ATTN: MR. NELLO GONFIANTINI III, PRESIDENT & CEO  
6160 PLUMAS STREET  
RENO, NV 89509**

**BY**

**Raymond L. Dozier, MAI  
DOZIER APPRAISAL COMPANY  
PALM DESERT, CA 92260**

**DOZIER APPRAISAL COMPANY**

**Resort and Urban Property Appraisers  
Valuation and Financial Consultants**

---

73-350 EL PASEO, SUITE 206  
PALM DESERT, CALIFORNIA 92260

RAYMOND L. DOZIER, MAI  
CERTIFIED GENERAL APPRAISER  
LICENSE # AG004590

TEL. (760) 776-4200  
FAX (760) 776-4977  
E-MAIL Dozierappraisal@dc.rr.com

December 15, 2009

Specialty Financing  
Attn: Mr. Nello Gonfiantini, President & CEO  
6160 Plumas Street  
Reno, NV 89509

*RE: "As Is" Bulk or Wholesale Market Value Appraisal of 27 Existing Fractional Interests, 2 dwellings partially complete (60%), 4 finished residential lots slabbed and stubbed up and 9 vacant finished residential lots; and the "As If Complete" Bulk or Wholesale market value of 135 proposed fractional units, and the "As If Complete" Bulk or Wholesale market value of 162 proposed fractional units located within The Residence Club, within the PGA Golf Resort located in the City of La Quinta, CA 92253.*

Mr. Gonfiantini:

"As Is" Bulk or Wholesale Market Value Appraisal of 27 Existing Fractional Interests, 2 dwellings partially complete (60%), 4 finished residential lots slabbed and stubbed up and 9 vacant finished residential lots; and the "As If Complete" Bulk or Wholesale market value of 135 proposed fractional units; and the "As If Complete" Bulk or Wholesale market value of 162 proposed fractional units (including model home fractional units) located within The Residence Club, within the PGA Golf Resort located in the City of La Quinta, CA 92253. This appraisal was made at the request and agreement between Specialty Financing and Dozier Appraisal Company. Specialty Financing is the client and intended user of this report.

The purpose of this appraisal is to estimate and report my opinion of the "As Is" Bulk or Wholesale Market Value Appraisal of 27 Existing Fractional Interests, 2 dwellings partially complete (60%), 4 finished residential lots slabbed and stubbed up and 9 finished residential lots; and the "As If Complete" Bulk or Wholesale market value of 135 proposed fractional interests; and the "As If Complete" Bulk or Wholesale Market Value of 162 fractional interests (Including existing model fractional units) proposed fractional units, as if sold in each scenario, to separate purchasers. In the "As Is" scenario, the property will be appraised at whatever stage of development as of the effective date of the appraisal. In the "as if complete" scenarios, the subject property will be appraised as if all 135 fractional interests and 162 fractional interests (including existing model fractional interests) are 100% complete as of the effect date of appraisal, December 1, 2009.

Page 2

All elements of a MARKET VALUE sale are to be present in terms of the price upon which a willing and well-informed seller and a willing and well-informed buyer would agree, in the absence of any unusual compulsion on either, and reasonable exposure on the open and competitive market. Reasonable exposure time in MARKET VALUE estimates precedes the specified date (effective date) of the appraisal. MARKET VALUE also assumes an open and competitive market of the property interest being appraised. The function or use of the appraisal is for loan analysis.

The property rights appraised establish the FEE SIMPLE Interest of all future benefits that may be derived from the property's present or possible use, except for existing easements and rights-of-way of record.

To make this appraisal, Raymond L. Dozier, MAI, has made a personal visitation of the subject property. He has reviewed sales of comparable properties and has weighed and compared this data to arrive at his estimate of value for the subject property. The effective date of this valuation is December 1, 2009.

This report is subject to the enclosed Assumptions and Limiting Conditions and the Certification of Value and The Scope and Extent of the Data Collection Process on Page 16 of this report.

The following pertain to extraordinary assumptions, hypothetical conditions, or major highest and best conclusions made regarding this appraisal:

- In order to determine the "As If Complete" Bulk or Wholesale Market Value of the subject's proposed 135 fractional interests, the hypothetical condition is being made that the subject's 135 proposed fractional interests are 100% complete as of the effective date of appraisal. (Hypothetical Condition).

Otherwise, there are no other extraordinary assumptions, hypothetical conditions, or major highest and best conclusions made regarding this appraisal. This letter of transmittal is not the complete appraisal report but a statement of value conclusions. Users of the appraisal are encouraged to read the completed attached report to reach appraiser's conclusions via the appraisal process.

The intention of this appraisal report is to comply fully with FIRREA appraisal guidelines, as well as the current Uniform Standards of Professional Appraisal practice (USPAP) adopted by the Appraisal Standards Board of the Appraisal Foundation; and the requirements of the Code of Professional Ethics and Standards of Professional Practice of the Appraisal Institute. The departure provision in USPAP shall not apply to this appraisal.

The undersigned does not have any personal interest, either present or contemplated, in the subject property and certifies that fees, received or to be received, for the employment of my services are not contingent on the opinions reported herein. In addition, the undersigned meets the Competency Provision Standard (1.1a,b,c) as required by USPAP and has the knowledge and experience to complete the assignment competently.

Page 3

Therefore, based upon my investigation and analysis of the data gathered with respect to this assignment, I have formed the opinion that the "As Is" Market Value of the Fee Simple Interest in the subject's 27 Existing Fractional Interests (2 existing dwellings), 2 dwellings partially complete (60%), 4 finished residential lots slabbed and stubbed up and 9 finished residential lots, as of the effective date December 1, 2009, is measured in the amount of:

**\$23,577,000\*<sup>1</sup>**

**(TWENTY THREE MILLION FIVE HUNDRED SEVENTY SEVEN THOUSAND DOLLARS)**

**Allocated:**

<b>27 Existing Fractional Interests</b>	<b>\$ 6,144,000 (\$227,556/Fractional)</b>
<b>Remainder of Development</b>	<b><u>\$17,443,000</u></b>
<b>Total</b>	<b><u>\$23,577,000</u></b>

Reasonable exposure time necessary to sell this property to a single purchaser prior to the date of this appraisal is estimated 6 to 9 months.

---

Therefore, based upon my investigation and analysis of the data gathered with respect to this assignment, I have formed the opinion that the "As If Complete" Bulk or Wholesale Market Value (if all 135 fractional interests sold to one buyer) of the Fee Simple Interest in the subject's 135 proposed Fractional Interests, as of the effective date December 1, 2009, is measured in the amount of:

**\$32,359,000\* (\$239,696/Fractional)<sup>1</sup>**

**(THIRTY TWO MILLION THREE HUNDRED FIFTY NINE THOUSAND DOLLARS)**

Reasonable exposure time necessary to sell this property to a single purchaser prior to the date of this appraisal is estimated 6 to 9 months.

---

Therefore, based upon my investigation and analysis of the data gathered with respect to this assignment, I have formed the opinion that the "As If Complete" Bulk or Wholesale Market Value (if all 162 fractional interests sold to one buyer) of the Fee Simple Interest in the subject's 162 proposed Fractional Interests, as of the effective date December 1, 2009, is measured in the amount of:

**\$38,503,000\* (\$237,673/Fractional)<sup>1</sup>**

**(THIRTY EIGHT MILLION FIVE HUNDRED THREE THOUSAND DOLLARS)**

Reasonable exposure time necessary to sell this property to a single purchaser prior to the date of this appraisal is estimated 6 to 9 months.

Page 4

<sup>1</sup>The reader will note that the appraiser estimated a marketing time of 10 to 12 months after the date of this appraisal. Consequently, due to current negative market conditions, if the property must be sold prior to this 10 to 12 month marketing period after the date of this appraisal, the sales price would be considered a liquidation value which could be significantly less than the appraised market value.

\*Based on hypothetical conditions, extraordinary assumptions, and/or major highest and best use conclusions found in the letter of transmittal. If any of these hypothetical conditions, extraordinary assumptions, and/or major highest and best use conclusions prove to be false, the estimated "as is" market value of the subject property could be highly impacted.

Respectfully submitted,  
DOZIER APPRAISAL COMPANY

A handwritten signature in dark ink, appearing to read 'RD', with a large, stylized loop at the end.

Raymond L. Dozier, MAI  
State Certified General Real Estate Appraiser  
CA. Cert. No. AG004590  
RLD/ /lhp (Word\L-09-127 LHP\_ Residence Club \_La Quinta.doc)

**TABLE OF CONTENTS**

**PART ONE - INTRODUCTION**

**PAGE**

Letter of Transmittal	
Table of Contents	
Certification .....	1
Area & Neighborhood Maps.....	2-3
Aerial Map .....	4
Project Site Plan .....	5
Tract Map .....	6
Subject Photos.....	7
Summary of Important Facts and Conclusions .....	16

**PART TWO - FACTUAL DATA**

Purpose and Use of the Appraisal .....	22
Scope of Appraisal .....	22
Date of Value Estimate .....	23
Identification of Property Rights/Definitions .....	23
Legal Description .....	25
History of the Subject .....	26
Regional and City Analysis.....	27
Neighborhood Description .....	41
Site Data.....	45
Zoning .....	48
Tax & Assessment Data .....	49

**TABLE OF CONTENTS (Cont'd)**

**PART THREE - ANALYSIS AND CONCLUSION**

**PAGE**

Highest and Best Use .....	50
Valuation Methodology .....	52
Land Residual Technique.....	54
Bulk or Wholesale Discounted Cash Flow Analysis 30 Fractional Interests .....	60
Bulk or Wholesale Discounted Cash Flow Analysis 135 Fractional Interests .....	67
Land Residual Analysis for “As Is” Market Value.....	68
Cost of Production for 135 Fractional Interests .....	71
Reconciliation and Final Estimate of Value .....	72

**PART FOUR - ADDENDA**

Qualifications

Company Profile

Assumptions and Limiting Conditions



## **CERTIFICATION**

I certify that, to the best of my knowledge and belief:

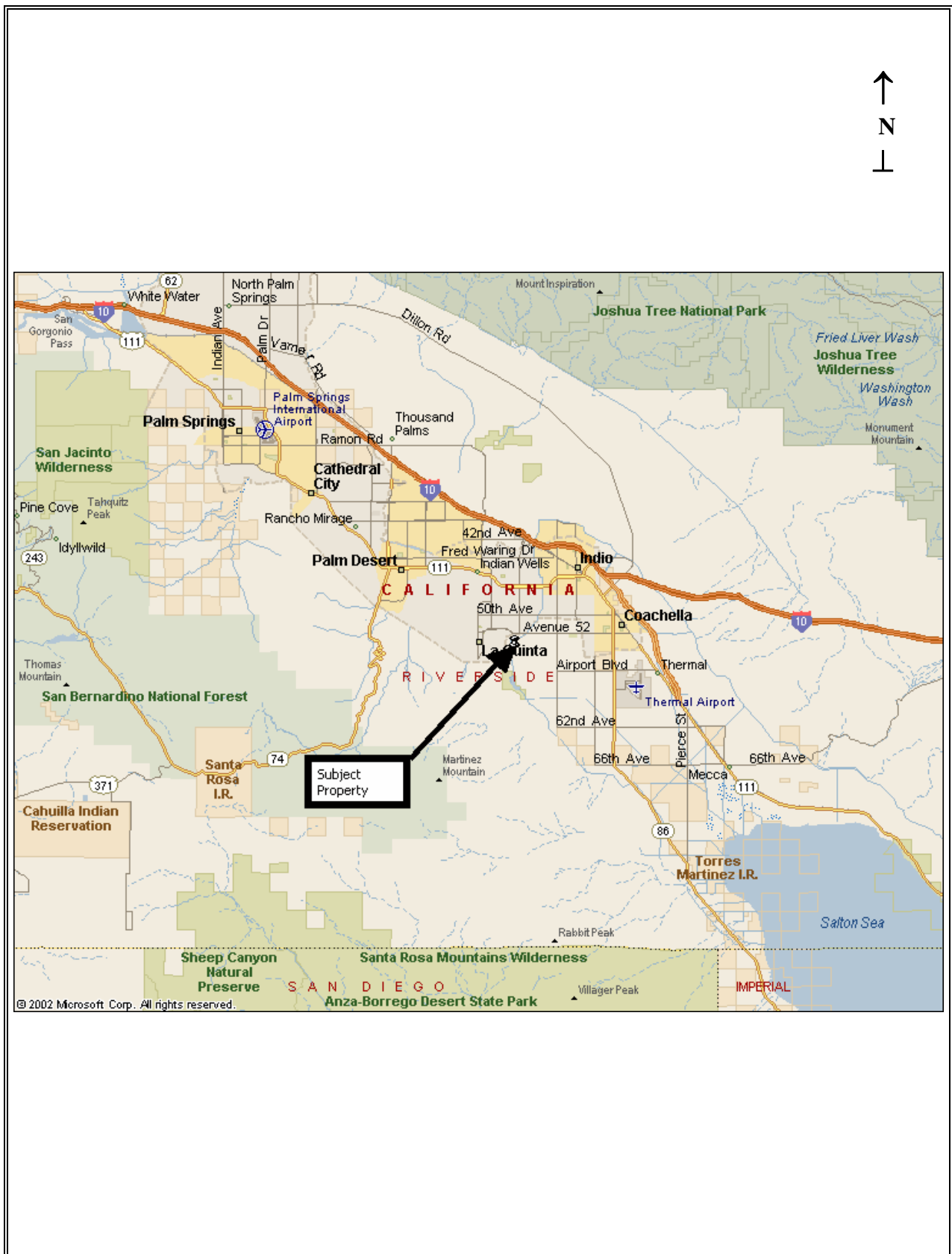
- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, unbiased professional analyses, opinions, and conclusions.
- I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest or bias with respect to the parties involved.
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- My engagement in this assignment was not contingent upon developing or reporting pre-determined results.
- My compensation for completing this assignment was not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- My analyses, opinions, and conclusions were developed, and this report has been prepared in conformity with the *Uniform Standards of Professional Appraisal Practice*.
- I have made a personal inspection of the property that is the subject of this report.
- Ms. Lori Pabros, independent contractor, provided significant professional assistance to the person signing this report. Mr. Raymond L. Dozier, MAI, reviewed the research and performed the analysis of the market data in determining final indication of value
- The appraisal assignment was not based on a requested minimum valuation, a specific valuation, or the approval of a loan.
- I certify that, to the best of my knowledge and belief, the reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute.
- I certify that the use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- As of the date of this report, I, Raymond L. Dozier, MAI, have completed the requirements of the continuing education program of the Appraisal Institute.



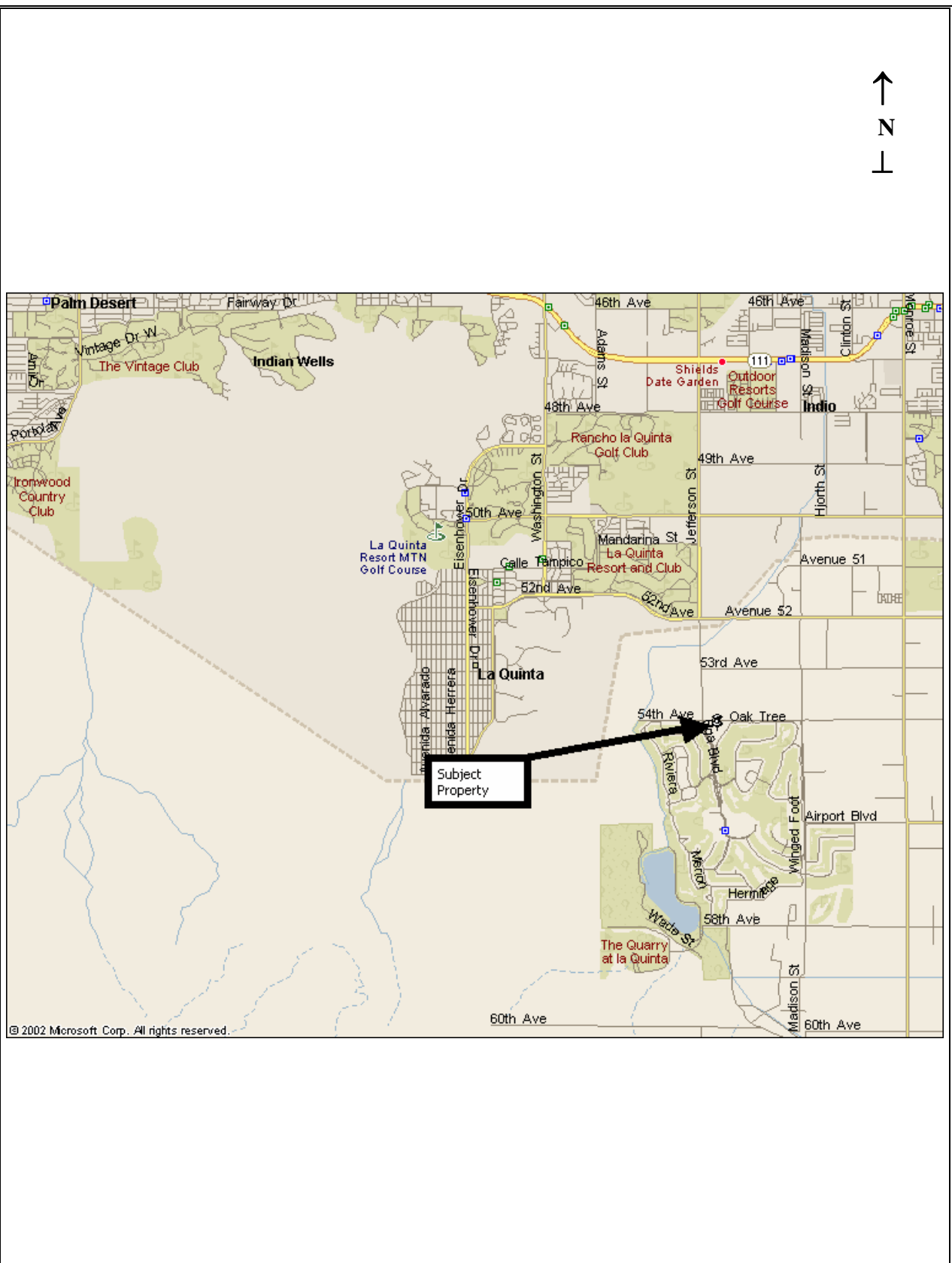
---

Raymond L. Dozier, MAI  
State Certified General Real Estate Appraiser  
CA. Cert. No. AG004590

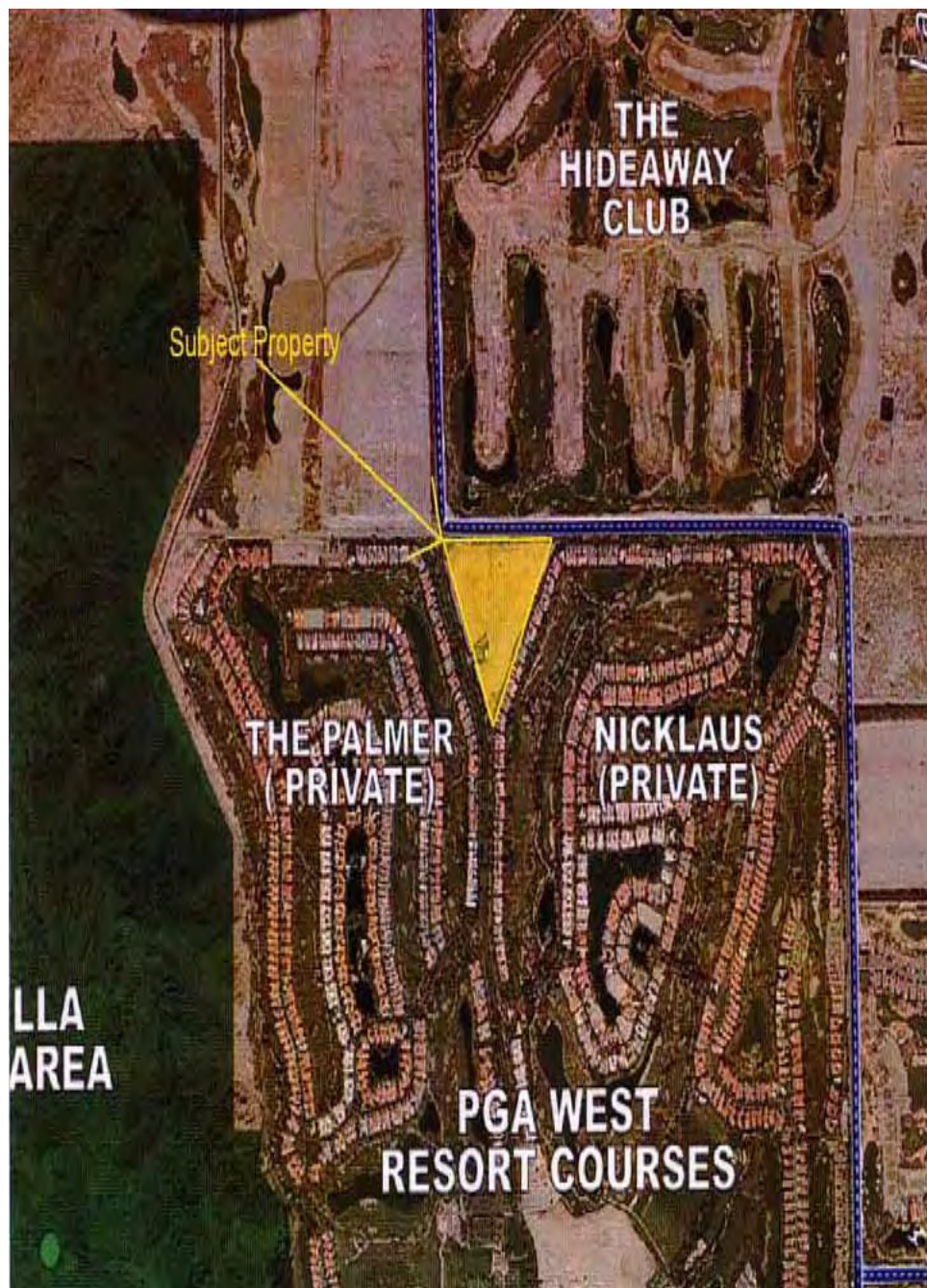
## AREA MAP



## NEIGHBORHOOD MAP

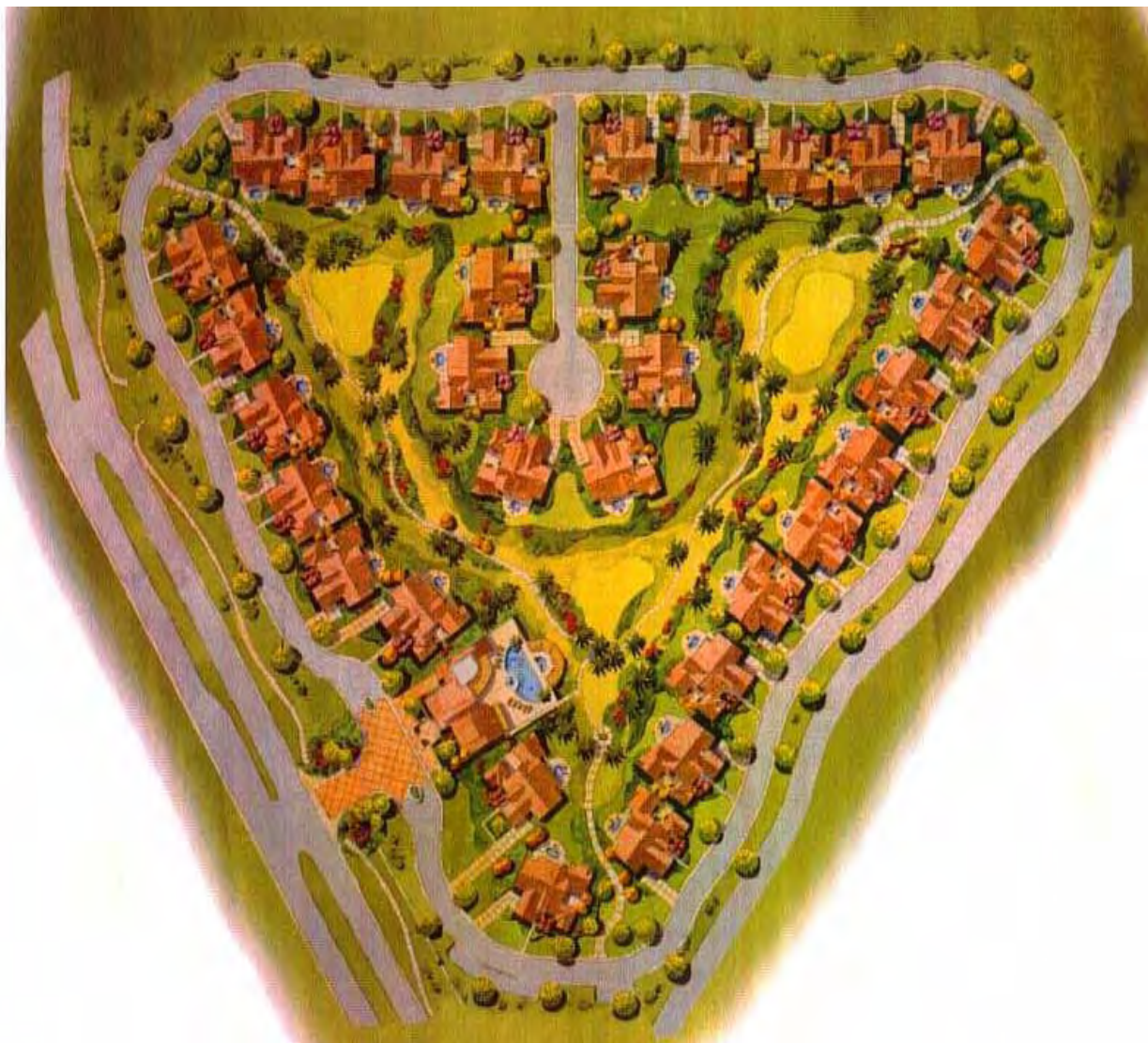


## AERIAL MAP





## PROJECT SITE PLAN







**SUBJECT PHOTOGRAPHS**



**View of new guard gate**



**View of Perimeter Wall fronting Avenue 54**

**SUBJECT PHOTOGRAPHS**



**Existing Clubhouse**



**Clubhouse Entrance and Concierge Desk**



**SUBJECT PHOTOGRAPHS**



**Clubhouse Lounge Area**



**Clubhouse Fitness Center**



**SUBJECT PHOTOGRAPHS**



**Clubhouse Ladies Locker Room**



**Clubhouse Pool and Lounge Area**



**SUBJECT PHOTOGRAPHS**



**View of Typical Putting Green From the Clubhouse Patio**



**Exterior View of Model Home**

**SUBJECT PHOTOGRAPHS**



**View of Model Home Kitchen Area**



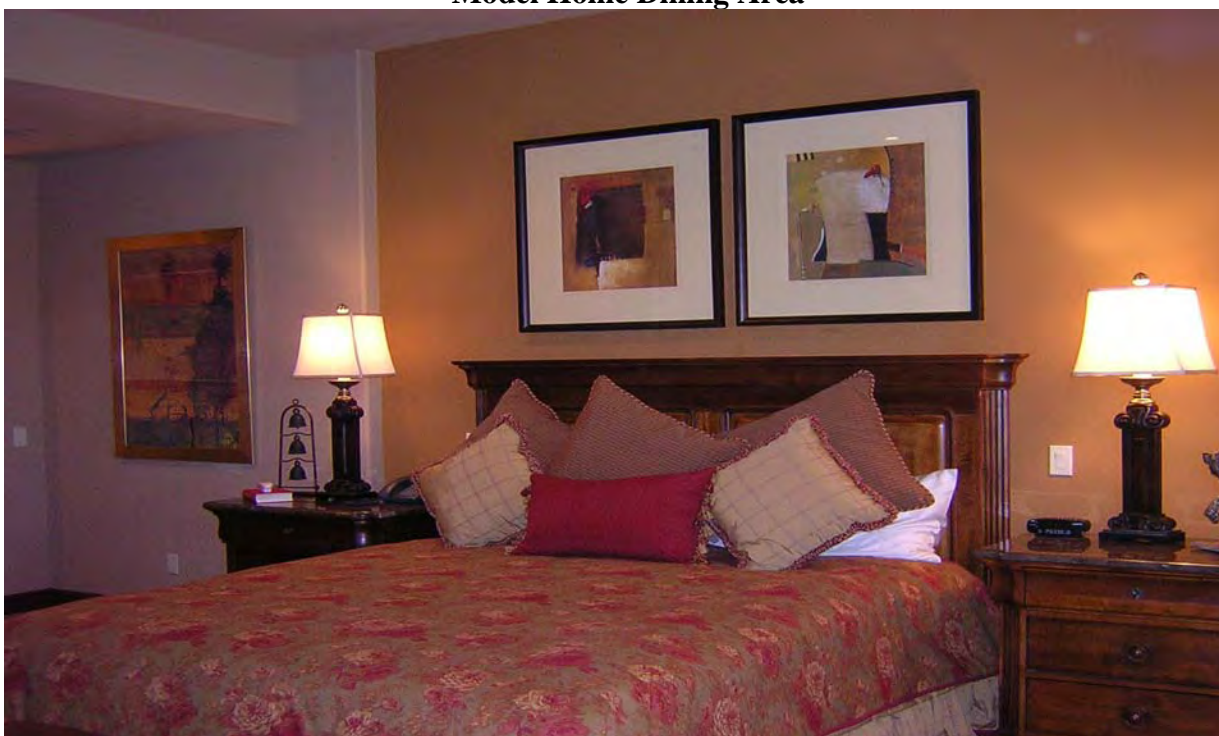
**Model Home Living Area**



**SUBJECT PHOTOGRAPHS**



**Model Home Dining Area**



**Typical Bedroom**

**SUBJECT PHOTOGRAPHS**



**Casita Bedroom**



**View of Living Area from outdoor patio**



**SUBJECT PHOTOGRAPHS**



**Model Patio Area**



**Lots 9-12 Slabbed and Stubbed Up**

**SUBJECT PHOTOGRAPHS**

*Dozier Appraisal Company  
Palm Desert, California*



**View of Finished Lots**



**View of 2 Dwellings 60% Complete**



**SUMMARY OF IMPORTANT FACTS AND CONCLUSIONS**

---

**GENERAL SUBJECT INFORMATION:**

<b>Property Type:</b>	The Residence Club Fractional Interest Development
<b>Location:</b>	SEC Jefferson and Avenue 54, La Quinta, CA 92253
<b>Identification:</b>	The Residence Club
<b>Census Tract Number:</b>	0456.03
<b>Thomas Guide Map Page &amp; Grid:</b>	Page 5530, Grid B/3
<b>Purpose of the Appraisal:</b>	The purpose of this appraisal is to estimate and report my opinion of the "As Is" Bulk or Wholesale Market Value Appraisal of 27 Existing Fractional Interests, 2 dwellings partially complete (60%), 4 finished residential lots slabbed and stubbed up and 9 finished residential lots; and the "As If Complete" Bulk or Wholesale market value of 135 proposed fractional interests; and the "As If Complete" Bulk or Wholesale Market Value of 162 fractional interests (Including existing model fractional units) proposed fractional units, as if sold in each scenario, to separate purchasers. In the "As Is" scenario, the property will be appraised at whatever stage of development as of the effective date of the appraisal. In the "as if complete" scenarios, the subject property will be appraised as if all 135 fractional interests and 162 fractional interests (including existing model fractional interests) are 100% complete as of the effect date of appraisal, December 1, 2009.
<b>Function of the Appraisal:</b>	The function or use of the appraisal is for loan analysis.
<b>Scope of the Appraisal:</b>	Complete narrative format adhering to all FIRREA and USPAP Standards; Departure provisions shall not apply.
<b>Property Rights Appraised:</b>	The property rights appraised establish the FEE SIMPLE Interest of all future benefits that may be derived from the property's present or possible use, except for existing easements and rights-of-way of record.
<b>Unavailability of Information:</b>	Information vital to the appraiser in connection with this property was made available from various sources. The appraiser has not been provided a survey, exact boundary lines or acreage, a standard current title report, environment report, soil tests or other relevant data on the subject property.

**SITE:**

## SUMMARY OF IMPORTANT FACTS AND CONCLUSIONS

---

<b>Site Size :</b>	See Parcel Map
<b>Site Shape:</b>	See Parcel Map
<b>Zoning:</b>	
• <b>General Plan:</b>	Medium Density Residential
• <b>Actual:</b>	Medium Density Residential
<b>Redevelopment Area:</b>	No
<b>Street Frontage:</b>	Property has street frontage along Residence Club Drive & PGA Oak Tree Boulevard
<b>Access:</b>	Property has access from PGA Oak Tree Boulevard and Residence Club Drive.
<b>Topography:</b>	Level to Street Grade
<b>Drainage:</b>	Appears adequate. (See Scope and Extent of the Data Collection Process, Page 14)
<b>Containment in Floodplain:</b>	The subject appears to be located in area shown as Flood Zone X defined as follows: "Areas outside of the 100 and 500 year flood plains". Designated by F.E.M.A. Flood Insurance Rate Map, revised August 28, 2008, in Community Panel Number 060245 2242G. Flood Insurance will probably be required in this area. (See Scope and Extent of the Data Collection Process, Page 14)
<b>Improvements:</b>	
• <b>Off-Sites:</b>	Residence Club Drive is a private residential paved street
• <b>On-Sites:</b>	Clubhouse, Sales Office, Model Home, 2 existing dwellings (27 fractional interests), 2 partially completed dwellings, 4 lots slabbed and stubbed up, 9 finished lots.
<b>Utilities:</b>	Public utilities including water, electricity, and telephone appear to be installed the subject property and capacities are unknown. See Scope and Extent of the Data Collection Process, Page 14)
<b>Within Assessment District:</b>	Does not appear to be in district. No impact on value.

## **SUMMARY OF IMPORTANT FACTS AND CONCLUSIONS**

---

<b>Easements:</b>	Periphery utility easements encumbering subject property are assumed for this appraisal. (See Scope and Extent of the Data Collection Process, Page 14)
<b>Toxic Waste:</b>	This report assumes this site is not nor has ever been contaminated with any form of toxic waste or hazardous substance. (See Scope and Extent of the Data Collection Process, Page 14)
<b>Deductions and Discounts:</b>	No deductions or discounts were made in the valuation of the property. Indicated Market Value has not been reduced by the cost of holding or selling the property.

### **HIGHEST AND BEST USE:**

- **“As Is”:** The highest and best use of the subject property would be to continue selling the existing 27 fractional interests while simultaneously developing the 135 proposed fractional interests in phases of 18-20 fractional interests per phase. It was determined later in this report that the “As If Complete” Bulk or Wholesale Market Value of the 135 proposed fractional interests (\$32,359,000) is greater than the Cost of Production (\$30,950,000). Therefore, all agents of production (Land, Labor, Capital & Entrepreneurial Profit are recaptured in the Bulk sale.

### **MARKETING TIMES & PROBABLE PURCHASER:**

<b>Reasonable Exposure:</b>	6 to 9 months (Prior to the date of the appraisal.)
<b>Marketing Time:</b>	10 to 12 months (After the date of the appraisal.)
<b>Most Probable Purchaser:</b>	Developer

## SUMMARY OF IMPORTANT FACTS AND CONCLUSIONS

---

### **TREND ANALYSIS:**

- **Regional/City:**

The Coachella Valley's favorable environmental, economic, social and governmental forces will contribute to a continued demand for real estate in the southern and southwestern area in the long run. This is primarily due to the relatively lower cost of housing compared to other counties in Southern California. Over the past 12 months market conditions in the area and across the country have taken a down turn. The following factors have had a negative effect on current market conditions:

- Sub Prime Mortgage lenders have tightened their qualifying requirements, making it very difficult to fund home buyers with less than perfect credit, causing slower absorption in the market.
- Retail activity has slowed in the last 12 months due to the lack of consumer confidence over higher fuel prices, slow real estate markets and job losses in the construction and real estate sectors.
- Mortgage money crunch causing limited funds for purchases of raw land and finished product.
- It is concluded that over the next 12 to 18 months, construction financing will continue to become more difficult to obtain for residential developments that are economically feasible. Consumer demand for these properties should continue to decrease over the next 18 months with a balancing of supply and demand in the market expected in the next 24 to 30 months.

- **Neighborhood:**

The subject property is located in PGA West residential and golf resort and is the only fractional interest development in the area at the current time. The majority of homes in the neighborhood are upscale residences used as second vacation homes. residential and resort development. Although residential values have continued to fall in the Coachella Valley PGA West has remained relatively stable compared to other neighborhoods in the district.

## SUMMARY OF IMPORTANT FACTS AND CONCLUSIONS

---

### **MARKET VALUE INDICATION BY APPROACH (Fee Simple):**

#### **Land Residual Technique for 27 Existing Fractional Interests:**

- “As Is” Bulk or Wholesale Market Value 27 Existing Fractional Interests (DCF) **\$6,144,000 (\$227,696/Fractional Interest)**
- Aggregate Retail of 27 Existing Fractional Interests **\$7,533,000 (\$279,000/Fractional Interest)**

#### **Land Residual Technique for 1 Model Home, 2 existing dwellings 60% complete 4 finished lots slabbed and stubbed up and 9 Finished Lots.**

- “As Is” Market Value of 2 existing dwellings 60% complete 4 finished lots slabbed and stubbed up and 9 finished lots. Existing Fractional Interests (DCF) **\$17,443,000**
- “As If Complete” Bulk or Wholesale Market Value of 135 Proposed Fractional Interests: **\$32,359,000**
- 1. Cost of Production: **\$30,950,000**
- 2. Aggregate Retail: **\$37,665,000**
- 3. Bulk or Wholesale: **\$32,359,000**
- “As If Complete” Bulk or Wholesale Market Value of Entire Project (162 Fractional Interests (DCF) **\$38,503,000**

**SUMMARY OF IMPORTANT FACTS AND CONCLUSIONS**

---

**FINAL RECONCILED MARKET VALUE INDICATION (Fee Simple):**

- **Total “As Is” Market Value of Entire Project** **\$23,577,000<sup>1</sup>**

**Allocated:**

**1. 27 Existing Fractional Interests** **\$6,144,000**

**2. Remaining existing improvements and finished lots** **\$17,443,000**

**Total** **\$23,577,000**

- **“As If Complete” Bulk or Wholesale Market Value of 135 proposed fractional interests** **\$32,359,000\*<sup>1</sup>**

- **“As If Complete” Bulk or Wholesale Market Value of 162 proposed fractional interests** **\$38,503,000\*<sup>1</sup>**

**Date of Last Visitation:** December 1, 2009

**Date of Report:** December 15, 2009

**Effective Date of Value Estimate:** December 1, 2009

<sup>1</sup>The reader will note that the appraiser estimated a marketing time of 10 to 12 months after the date of this appraisal. Consequently, due to current negative market conditions, if the property must be sold prior to this 10 to 12 month marketing period after the date of this appraisal, the sales price would be considered a liquidation value which could be significantly less than the appraised market value.

\*Based on hypothetical conditions, extraordinary assumptions, and/or major highest and best use conclusions found in the letter of transmittal. If any of these hypothetical conditions, extraordinary assumptions, and/or major highest and best use conclusions prove to be false, the estimated “as is” market value of the subject property could be highly impacted.

## **PURPOSE OF THE APPRAISAL**

The purpose of this appraisal is to estimate and report my opinion of the “As Is” Bulk or Wholesale Market Value Appraisal of 27 Existing Fractional Interests, 2 dwellings partially complete (60%), 4 finished residential lots slabbed and stubbed up and 9 finished residential lots; and the “As If Complete” Bulk or Wholesale market value of 135 proposed fractional interests; and the “As If Complete” Bulk or Wholesale Market Value of 162 fractional interests (Including existing model fractional units) proposed fractional units, as if sold in each scenario, to separate purchasers. In the “As Is” scenario, the property will be appraised at whatever stage of development as of the effective date of the appraisal. In the “as if complete” scenarios, the subject property will be appraised as if all 135 fractional interests and 162 fractional interests (including existing model fractional interests) are 100% complete as of the effect date of appraisal, December 1, 2009.

## **USE OF THE APPRAISAL**

The function or use of the appraisal is for loan analysis.

## **THE SCOPE AND EXTENT OF THE DATA COLLECTION PROCESS**

The following steps were made in arriving at the final estimate of value in the appraisal report:

1. A preliminary search of available resources was made to determine market trends, influences, and other significant factors pertinent to the subject property.
2. A physical inspection of the property was performed. Although due diligence was exercised while at the property, the appraiser is not an expert in such matters as accident or tragic issues; crime issues; legal issues; suit or claim issues; government issues; land use issues; nuisance issues; building issues; repair issues; soil issues; geo-technical issues; hazardous issues; contamination issues; environmental agency issues; natural resource issues; historic or cultural issues; natural hazard issues; and all issues to those known – past, present or proposed. No warranty is given as to these elements. As needed, inspections by various professionals within these fields might be recommended, with the final estimate of value subject to their findings.
3. Research and collection of data from the subject's competing market area are sufficient in quantity to express an opinion of value as defined herein. Relevant data is contained in this report.
4. An analysis of the data was completed by applying customary appraisal techniques and following the USPAP standards. The report will be self-contained narrative and will be expected to lead the reader to the same value conclusion as suggested by the appraiser.

## **DATE OF VALUE ESTIMATE**

---

Site was inspected December 1, 2009 with this date being the effective date of the appraisal. The date of this report is December 15, 2009.

## **IDENTIFICATION OF PROPERTY RIGHTS APPRAISED**

The property rights being appraised represent the FEE SIMPLE INTEREST of all future benefits that may be derived from the property's present or possible use, except for existing easements and rights-of-way of record.

## **DEFINITIONS OF VALUE AND PROPERTY RIGHTS**

"MARKET VALUE" means: The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeable and assuming the price is not affected by undue stimulus.<sup>1</sup> Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- Buyer and seller are typically motivated
- Both parties are well-informed or well-advised, and each acting in what he considers his own best interest
- A reasonable time is allowed for exposure in the open market.
- Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
- The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

MARKET VALUE is based on the concept of an open and competitive market in which typical transactions are free of the aspects of duress or forced liquidation.

The REASONABLE EXPOSURE TIME inherent in the MARKET VALUE concept is always presumed to occur PRIOR to the effective date of the appraisal.

The REASONABLE MARKETING PERIOD is an estimate of the amount of time it might take to sell a property interest in the real estate at the estimated market value level during the period IMMEDIATELY AFTER the effective date of the appraisal.

---

<sup>1</sup> (Title XI, FIRREA, 34.42 f)



## **DEFINITIONS OF VALUE AND PROPERTY RIGHTS (Cont'd)**

---

To estimate "Market Value" during a period of very limited market activity is extremely difficult and challenging. The key to the property analysis of sales transactions in comparison to the subject is for circumstances to parallel the definition of MARKET VALUE. To the extent that any of the conditions of a sale differ substantially from the elements in the definition, without appropriate adjustment, the transaction fails as evidence of MARKET VALUE.

During some periods of distressed market conditions, MARKET VALUE may imply a price at which a transaction will not occur until such time as conditions in the market match the definition of MARKET VALUE.

"FEE SIMPLE ESTATE" means: Absolute ownership unencumbered by any other interest or estate subject only to the four powers of government.

The term "LEASE FEE ESTATE" means: A Leased Fee Estate is an ownership interest held by a landlord with the right of use and occupancy conveyed by lease to others; the rights of lessor and the leased fee are specified by contract terms contained within the lease.<sup>1</sup>

The term "LEASEHOLD ESTATE" means: "The right to use and occupy real estate for a stated term and under certain conditions; conveyed by a lease."<sup>2</sup>

The term "GROUND LEASE" means: "A lease that grants the right to use and occupy land."<sup>3</sup>

The "AS IS" PREMISE on appraisal date means: "An estimate of a property in the condition observed upon inspection and as it physically and legally exists without hypothetical conditions, assumptions, or qualifications as of the date the appraisal is prepared."<sup>4</sup>

The "AS IF" PREMISE on appraisal date means: "The market value of a property with all proposed construction, conversion, or rehabilitation hypothetically completed, or under other specified hypothetical conditions, as of the date of the appraisal."

The term "LIQUIDATION VALUE" means the most probable price that a specified interest in real property is likely to bring if the consummation of a sale will occur within a severely limited future marketing period specified by the client.

---

<sup>1</sup> The Appraisal of Real Estate, 11<sup>th</sup> Edition, Appraisal Institute, Page 138.

<sup>2</sup> The Dictionary of Real Estate Appraisal, 2nd ed. (Chicago: American Institute of Real Estate Appraisers, Chicago, 1989), p. 177

<sup>3</sup> Ibid., p. 144.

<sup>4</sup> Appraisal Policies and Practices of Insured Institutions and Service Corporations, Federal Home Loan Bank Board, "Final Rule", 12 CFR Parts 563 and 571, December 21, 1987.

## LEGAL DESCRIPTION AND IDENTIFICATION OF PROPERTY

---

<b>Location:</b>	The Residence Club located within PGA West Residential and Golf Community
<b>Assessors Parcel Numbers:</b>	See Addendum
<b>Common Address:</b>	Individual lots vary
<b>Legal Description:</b>	See Addendum
<b>Current Ownership:</b>	The Residence Club
<b>Condition of Title:</b>	No assessment of the condition of the title has been made by the appraiser, but as outlined in the Assumptions and Limiting Conditions which are part of this report, the property is appraised as if free and clear of any encumbrances.

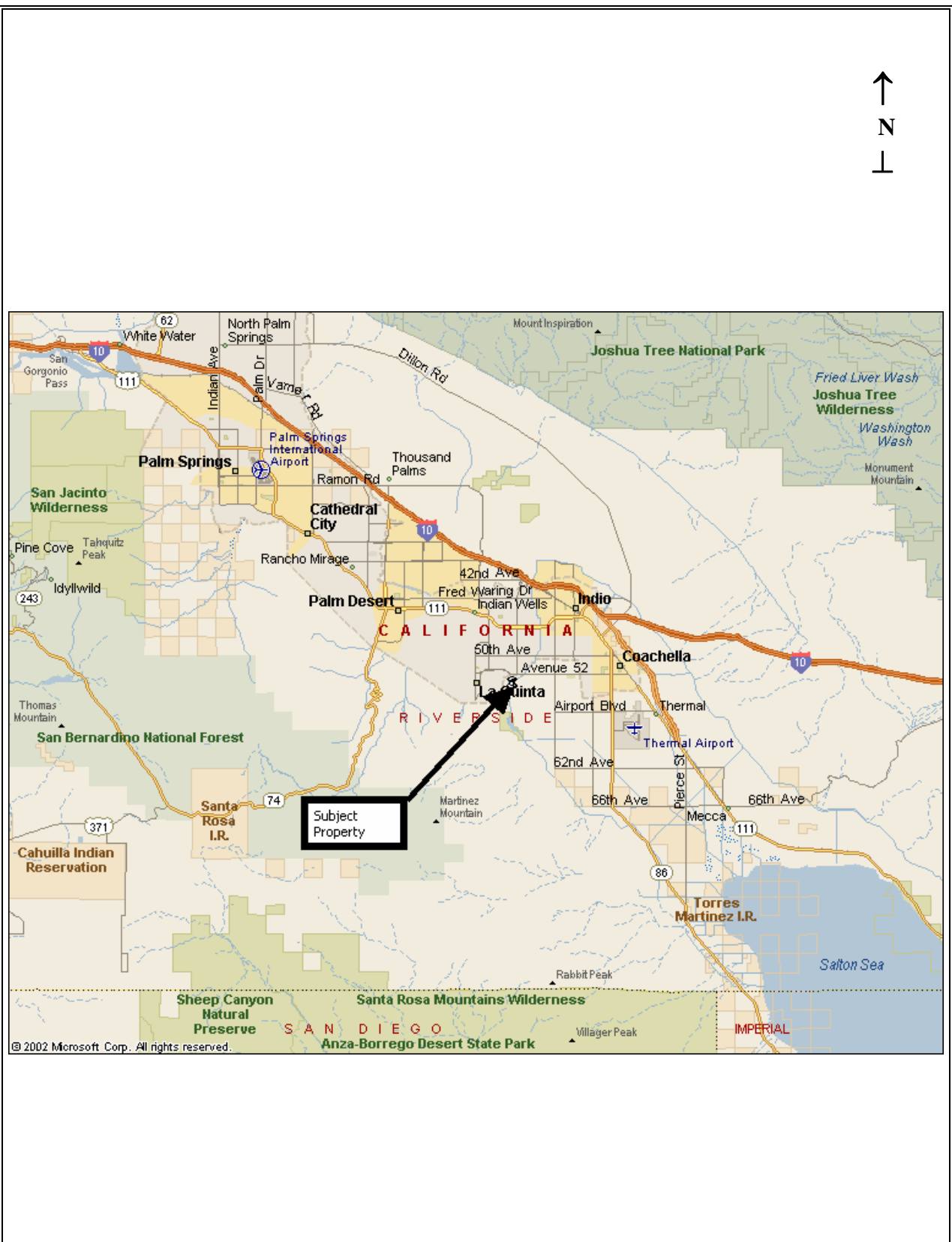
**LEGAL DESCRIPTION AND IDENTIFICATION OF PROPERTY**

---

**HISTORY OF SUBJECT**

- The Residence Club purchased the subject property as raw land in 2004 for \$3,000,000.
- Three of the fractional units were sold in 2008 for \$279,000, \$259,000 and \$249,000 respectively.
- Later in the appraisal the reader will note the estimated “as is” Market Value of the subject property’s entire project is \$23,577,000. The difference between the 2004 purchase price of \$3,000,000 and the current estimated market value of \$23,577,000 is due improvements made on the subject property which included subdivided map, finished dwellings and lots, finished clubhouse and other amenities.

## AREA MAP



## PART TWO – FACTUAL DATA

---

### REGIONAL AND CITY ANALYSIS – THE COACHELLA VALLEY

#### Riverside County Overview

Riverside County, Southern California's seventh most populous county, encompasses about 7,300 square miles. It extends 148 miles across southern California, from the Arizona border to within 20 miles of the Pacific Ocean. Riverside County is situated immediately east of Los Angeles and Orange Counties, south of San Bernardino County and north of San Diego County. Riverside County is considered to be the recipient of growth and urbanization demand that originates from Los Angeles, Orange, and San Diego Counties.

Riverside County is generally considered to be composed of two distinct geographic and economic regions. Eastern Riverside County is primarily a desert, with an economy centered on tourism and agriculture. Western Riverside County is a semi-arid region of urban, suburban and rural land uses. This section of Riverside County is part of a larger, more diverse, economic base commonly referred to as "The Inland Empire" of Southern California. Besides the immediate access to over 15 million people in Southern California, there are an additional nine million people one hour's flying time or an overnight driving trip away.

The subject is located within the incorporated City of La Quinta within the Coachella Valley, Riverside County, CA. This location is approximately 125 miles east of Los Angeles' metropolitan center, 100 miles east of Orange County's beaches, 90 miles southeast of Santa Ana (the County Seat of Orange County) and 75 miles southeast of San Bernardino (the County Seat of San Bernardino County), 70 miles east of Riverside (the County Seat of Riverside County), and 270 miles west of Phoenix, Arizona.

To estimate value, an interpretation of how the market views the subject property is analyzed. The scope of the investigation is not limited to static, current conditions. Rather, I have examined trends in the forces that influence value to determine the direction, speed, duration, strength, and limits of these trends.

Besides the immediate access to over 15 million people in Southern California, there are an additional 9 million people with one hour's flying time or an over-night trip away. The valley is located in the center of the fastest growing county in California, Riverside County. Surrounded by massive ranges of mountains with spectacular rock formations, this desert area is one of the most impressive and picturesque valleys in California. The world-renowned City of Palm Springs is located on the western edge of the Coachella Valley, adjacent to the base of San Jacinto Mountain. The other desert resort communities are located to the east:

Cathedral City, Rancho Mirage, Palm Desert, Indian Wells, LaQuinta, Indio, Coachella  
And the unincorporated areas of Bermuda Dunes, Thousand Palms, Thermal and  
Vista Santa Rosa.

Transportation into the Coachella Valley is accommodated by the expanding Palm Springs Airport and Interstate Freeway 10, which runs from Los Angeles to Houston, Texas and east. Further access will be provided by an approved \$600 million road improvement program which includes construction of a Mid-Valley Parkway. Because of the relative ease to commute from one end of the valley to the other, most local residents consider the whole valley as one market area.

**PART TWO – FACTUAL DATA****REGIONAL AND CITY ANALYSIS (continued)**

The scope of this regional investigation is not limited to static, current conditions. Rather, an analysis of trends and the forces that influence value to determine the direction, speed, duration, strength, and limits of these trends.

**A. SOCIAL**

Riverside County has been one of Southern California's fastest growing regions, with an estimated population of 2,031,000. This population estimate (which was provided by the State Department of Finance) represents an increase of 3.3% over the previous year. In comparison, the permanent population of the Coachella Valley is shown as 429,313, an increase of 3.6% from the previous year. A summary chart of Riverside County and the Coachella Valley population estimates is shown below.

<b>COACHELLA VALLEY POPULATION FIGURES – 2008</b>						
<b>CITY</b>	<b>CENSUS 2000</b>	<b>1/1/2006</b>	<b>1/1/2007</b>	<b>1/1/2008</b>	<b>One Year</b>	<b>Since '00 Census</b>
<b>Western Valley</b>						
Cathedral City	42,647	51,435	52,115	52,465	0.6%	23.0%
Desert Hot Springs	16,582	22,163	23,544	26,068	4.7%	57.2%
Palm Springs	42,807	46,754	46,858	47,251	0.8%	10.4%
Unincorporated	9,642	11,214	11,754	N/A	N/A	N/A
Total Western Valley	111,678	131,566	134,271	125,784*	2.7%	23.3%
<b>Central Valley</b>						
Indian Wells	3,816	4,899	4,942	5,025	1.6%	31.7%
<b>La Quinta</b>	<b>23,694</b>	<b>38,604</b>	<b>41,092</b>	<b>42,958</b>	<b>4.5%</b>	<b>81.3%</b>
Palm Desert	41,155	49,879	49,752	50,907	2.2%	23.7%
Rancho Mirage	13,249	16,783	16,944	17,057	0.6%	28.7%
Unincorporated	10,353	10,488	10,993	N/A	N/A	N/A
Total Central Valley	92,267	120,653	123,723	115,947*	2.9%	41.5%
<b>Eastern Valley</b>						
Indio	49,116	72,142	77,146	81,512	5.6%	66.0%
Coachella	22,724	35,449	38,486	40,517	5.2%	78.3%
Unincorporated	42,340	54,489	55,693	N/A	N/A	N/A
Total Eastern Valley	114,180	162,080	171,325	123,029*	6.4%	71.2%
Total Unincorporated	62,335	76,191	78,440	79,852	1.8%	28.1%
<b>Total Coachella Valley</b>	<b>318,125</b>	<b>414,299</b>	<b>429,319</b>	<b>443,612</b>	<b>2.9%</b>	<b>39.4%</b>
<b>Comparison (2007 Data):</b>						
Riverside County	1,545,000	1,808,000	1,966,000	2,031,000	3.3%	31.5%
California	33,872,000	36,271,000	37,172,000	37,662,000	1.3%	11.2%

- Numbers may not add up due to independent rounding.

**B. ECONOMIC Cont'd:**

**PART TWO – FACTUAL DATA**

**JOBLESS RATE CONTINUES TO INCREASE. TOPS 15%**  
**THE DESERT SUN SATURDAY, NOV. 21, 2009**

COMMUNITY	UNEMPLOYMENT RATE
BERMUDA DUNES	6.7%
CATHEDRAL CITY	14.7%
COACHELLA	23.3%
DESERT HOT SPRINGS	19.9%
INDIAN WELLS	5.4%
INDIO	16.3%
LA QUINTA	8.0%
MECCA	27.7%
PALM DESERT	9.1%
PALM SPRINGS	11.8%
RANCHO MIRAGE	13.3%
THOUSAND PALMS	9.8%

Riverside County's unemployment rate rose to 15.1% in October, making it among the worst in the state. Included in the Labor Department statistics released Friday are 22,300 Coachella Valley residents.

**B. ECONOMIC Cont'd:**



## PART TWO – FACTUAL DATA

THE DESERT SUN – OCTOBER 2009

# Business

Senior Editor/News: James Meier • (760) 778-4623 • business@thedesertsun.com

**LIVE UNITED.** YOUTH CARE FAMILY AND EMERGENCY HEALTH CARE. GIVE. ADVOCATE. VOLUNTEER.

**UNITED WAY OF THE DESERT**  
P.O. Box 1990, Palm Springs, CA 92263-1990  
(760) 323-2731 • www.unitedwayofthedesert.org

 DOW 9,096.72 | 
  S&P 500 979.62 | 
  NASDAQ 1,975.51 | 
  AMEX 1,673.16 | 
  NYSE 6,328.67

## Job worries persist; confidence dips

Despite stock market gains, Americans gloomy on economy, limiting spending

BY ANNE D'INNOCENZIO  
The Associated Press

NEW YORK — Americans are looking past the stock market surge and focusing on job worries.

Consumer confidence fell this month, the Conference Board said Tuesday, presenting a big obstacle for already hampered stores as they head into the critical back-to-school shopping season.

The confidence index fell to 46.6, down from 49.3 in June and weaker than what

economists were expecting. It takes a reading above 90 to signal Americans believe the economy is solid.

The second straight month of declining confidence followed an upbeat report offering more evidence that the real estate market is showing signs of life. According to a widely watched index, home prices in May posted their first monthly increase since the summer of 2006.

But vanishing job security and reduced work hours continue to plague shoppers,

who are relying more on their paychecks as two previous sources of money — credit cards and home equity loans — have shrunk.

When the Labor Department releases its monthly jobs report next week, economists expect it to show unemployment climbed to 9.7 percent in July, up from 9.5 percent in June and within shouting distance of its post-World War II high.

And the job cuts keep coming. Just Monday, Verizon Communications Inc. announced plans to slash more than 8,000 employee and contractor jobs before the end of the year.

Irma Sanches of Milwaukee was once a big spender. But now the 25-year-old single mother is having trouble finding a job that offers her flexibility to take care of her infant daughter. She was looking at toys at TJ Maxx on Tuesday but trying not to spend money.

"I'm a shopper, and right now I'm restricted to what I need," said Sanches.

The weak consumer-confidence reading also pushed stocks lower. The Dow Jones industrial average finished down about 12 points at 9,096.72. Over the past two weeks, better-than-expected earnings reports have reignited the stock market rally. The average topped 9,000

Thursday for the first time since early January, but worries about the economy are putting the rally on hold again.

Americans' lack of confidence presents a big hurdle for retailers because consumer spending accounts for more than 70 percent of economic activity.

"Even though we have seen an improvement in economic indicators, there hasn't been any meaningful improvement in household finances," said Mark Vitner, senior economist at Wells Fargo. "Consumers are not in the position to step up their spending in a major way. This doesn't bode well for the back-to-school season."

### C. GOVERNMENTAL:

Dozier Appraisal Company  
Palm Desert, California



## PART TWO – FACTUAL DATA

Incorporated and unincorporated cities in the valley are pro-growth. The area is progressive and adequately competent in their approach to maintaining a quality environment conducive to preserving the existing base industries. All desert communities maintain their own police and fire protection (whether direct or through contracts with Riverside County. Conventional utilities and services are available in the incorporated cities, including water, gas, sanitary sewer, electricity, refuse collection and cable television).

### D. ENVIRONMENTAL:

Mild winter temperatures attract tourists, business conventions and second home dwellers to the resort communities during the non-summer months. Because the mild winter weather is responsible for the majority of the region's tourism, the character of the local tourist economy is seasonal. However, with the influx of Indian Casinos, many of the would-be seasonal residents are staying permanently.

The primary mechanism of transportation in Southern California, Riverside County and the Coachella Valley is the private automobile. The major freeway in the region is Interstate Highway 10. Other state highways include 111, 62, 74 and 86. The Highway and road systems are in good condition and generally have ample capacity for current traffic levels.

### E. CONCLUSION:

The Coachella Valley's favorable environmental, economic, social and governmental forces will contribute to a continued demand for real estate in the southern and southwestern area in the long run. This is primarily due to the relatively lower cost of housing compared to other counties in Southern California. Over the past 12 months market conditions in the area and across the country have taken a down turn. The following factors have had a negative effect on current market conditions:

- Sub Prime Mortgage lenders have tightened their qualifying requirements, making it very difficult to fund home buyers with less than perfect credit, causing slower absorption in the market.
- Retail activity has slowed in the last 12 months due to the lack of consumer confidence over higher fuel prices, slow real estate markets and job losses in the construction and real estate sectors.
- Mortgage money crunch causing limited funds for purchases of raw land and finished product.
- It is concluded that over the next 12 to 18 months, construction financing will continue to become more difficult to obtain for residential developments that are economically feasible. Consumer demand for these properties should continue to decrease over the next 18 months with a balancing of supply and demand in the market expected in the next 24 to 30 months.

**PART TWO – FACTUAL DATA**

**COACHELLA VALLEY ECONOMIC RECOVERY  
BY 2012 – MAYBE  
THE DESERT SUN, OCTOBER 24, 2009**

Target sector	Total sector employment projections		Average wage	Net increase, blueprint implementation	
	2012	2016		Job growth	Wage growth, 2007 \$
Health care/Life sciences	12,380	15,615	\$52,947	3,235	\$171,288,238
Clean technology/energy	1,481	3,156	\$69,683	1,675	\$116,705,346
Supply chain management/logistics	2,491	3,466	\$42,575	975	\$41,524,901
Creative arts/design	5,337	8,391	\$51,158	3,054	\$156,234,740
<b>Total over five-year cycle</b>				<b>8,939</b>	<b>\$485,753,225</b>

THE DESERT SUN

## Recovery by 2012? Hopefully

Expert: Economic diversification key to Coachella Valley's future

**BY DEBRA GRUSZECKI**

The Desert Sun

INDIAN WELLS — When will there be true economic recovery in the Coachella Valley?

Try 2012.

And that's only if everything's done right.

That's the prediction from John Husing, an economist who has studied the Riverside and San Bernardino counties region for more than 40 years, and recently that of the Coachella Valley.

During his 2009 Coachella Valley economic report before about 650 business, government and local leaders gathered at the Renaissance Esmeralda Resort & Spa in Indian Wells on Friday,

Husing used one word to express what the valley's been through:

"Arrggh!"

Fueling that frustration, Husing said, is the fact that the valley has suffered unprecedented job losses in the recession.

"We've lost 130,000 jobs" in this area and in two surrounding counties, he said. The unemployment rate has topped 14 percent, and is rising to levels close to those recorded in Detroit.

"That's not pretty," Husing said. "It's a rate that is somewhat comparable to what was going on in the middle years of the Great Depression."

The good news is the valley's median home prices likely hit the bottom in the third quarter, he said.

In a comprehensive assessment, Husing said the

**Please see HUSING, A12**

## PART TWO – FACTUAL DATA

THE PUBLIC RECORD

AUGUST 18, 2009

## Coachella Valley property values fall

By BOB MARRA

The assessed value of taxable real property in the Coachella Valley underwent a substantial decrease during the past year as the effects of the global recession continue to impact local real estate markets.

Taxable real property values declined in Coachella Valley cities from \$66.7 billion in 2008-09 to \$62.2 billion in 2009-10 – a decrease of \$4.5 billion. A similar decline occurred in the unincorporated territory in the Valley, with assessed values dropping by \$859 million in the past year. Overall, the Valley went from an assessed value of \$75 billion last year to \$69.6 billion this year, a 7.1% decline.

While the short-term impact of the recession has clearly had a major effect on property values, it remains unclear how long the bad economy will derail the Valley's steady growth over the past ten years.

Every city in the Coachella Valley experienced declines in property values over the past year but some have weathered the recession much better than others. Rancho Mirage experienced a slight decline of 2.3%, dropping from \$8.5 billion to \$8.3 billion in assessed property values. Similarly, Indian Wells fell only 3.5%, from \$5.1 billion to \$4.9 billion, and Palm Desert fell 3.6%, from \$13.9 billion to end at \$13.6 billion. These cities have experienced slower development and housing growth over the past five years than other cities in the Valley, but their property values appear to have withstood the recession better than other communities with many new housing developments.

Palm Springs experienced a sharper drop in real property values, falling from \$10.4 billion to \$9.8 billion, a decline of

5.5%. La Quinta saw a similar decrease, falling 5.3% from \$12.5 billion to \$11.9 billion.

Several Coachella Valley cities suffered sharp declines in their assessed property values, however, with Desert Hot Springs hit hardest as assessed values fell from \$2.1 billion to \$1.4 billion – a precipitous 33.3% decline. Coachella property values fell by \$300 million, down 14.2% at \$1.8 billion. Likewise, property values in Cathedral City were down by 12%, falling from \$4.5 billion to \$3.9 billion, while property in Indio fell from \$7.5 billion to \$6.7 billion, a decrease of 11.1%.

Overall, property values in the Valley's incorporated areas fell by 6.7%, a decrease from \$66.7 billion to \$62.3 billion. Property values in the unincorporated areas of the Valley fell even more sharply, from \$8.3 billion to \$7.4 billion, a 10.4% decrease.

With the country still mired in recession, it remains unclear how soon property values will recover. Cities that had previously experienced rapid growth in new housing developments may struggle with foreclosures for the foreseeable future as the next round of sub-prime mortgages come due. Yet the strong growth in Coachella Valley property values over the past five to ten years suggest that generally the market should bounce back strongly. On average, property values in the Valley have increased by 177% over the past decade, and in Coachella, La Quinta, and Indio, they have more than tripled. Such strong, steady growth suggests that while property values may have taken a hard hit during this recession, they will likely regain much of their value when the overall economy begins to improve.

T-3

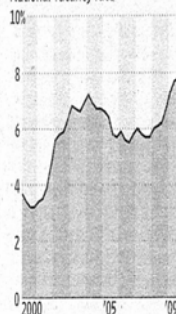
## PART TWO – FACTUAL DATA

## Landlords Squeezed

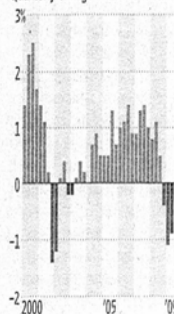
Apartment vacancy rates increased and rents continued to fall in the third quarter. Rents have fallen fastest in traditionally strong rental markets that have seen heavy job losses and in markets where foreclosed homes and condominiums have competed with rentals.

Source: Reis Inc.

National vacancy rate



Quarterly change in effective rent



Biggest rent declines over the past 12 months

San Jose, Calif.	-8.0%
New York	-6.8
Orange County, Calif.	-5.5
San Francisco	-5.3
Ventura County, Calif.	-5.1
Los Angeles	-4.6
Miami	-4.6
Las Vegas	-4.6

# Apartment Glut Expands

Vacancy Rate Rises to 7.8% as Unemployment Dents Demand; Monthly Rents Slip

By NICK TIMIRAO

Apartment vacancies hit their highest point since 1986, surging in cities from Raleigh, N.C., to Tacoma, Wash., as rising unemployment continued to chip away at demand during the traditionally strong summer rental months.

The U.S. vacancy rate reached 7.8%, a 23-year high, according to Reis Inc., a New York real-estate research firm that tracks vacancies and rents in the top 79 U.S. markets. The rate is expected to climb further in the fall and winter, when rental demand is weaker, pushing vacancies to the highest levels since Reis began its count in 1980.

Meanwhile, the air leaving the market is driving rents down, most sharply in markets that had been chugging along until a year ago, when unemployment accelerated, including Tacoma; San Jose, Calif.; and Orange County, Calif.

In New York, Jennifer Hyman rented a one-bedroom apartment in July at a monthly rate of \$1,950—down from \$2,450 for the previous tenant—when she returned to the city after gradu-

ating from Harvard Business School. Her first month's rent was free—and her landlord painted the apartment, scrubbed the floors and added window coverings.

"The experience was night-and-day different from before," says Ms. Hyman, who had rented other Manhattan apartments between 2002 and 2007, each time paying a brokers' fee and feeling pressured to sign a lease the minute she found an apartment. Now, she says, "Renters are the ones with the power."

Driving the change is the troubled employment market, which is closely tied to rentals. With unemployment at 9.8%—a 26-year high—more would-be renters are doubling up or moving in with family and friends during periods of job loss. Landlords have been particularly battered because unemployment has been higher among workers under 35 years old, who are more likely to rent. Nationally, effective rents have fallen by 2.7% over the past year, to around \$972.

"When job losses stop, rents will firm and occupancies will firm," says Richard Campo, chief executive of Camden Property

Trust, a Houston-based real-estate company.

The second and third quarters typically are the strongest periods for rental landlords because they are popular times for people to move. But this year, "vacancies just continued rising,"

More would-be renters are doubling up or moving in with family and friends amid job losses.

says Victor Calanog, director of research for Reis.

During the third quarter, vacancies increased in 42 markets, improved in 26 markets and remained unchanged in 11 markets. Omaha, Neb., saw the largest rise in vacancies, with the rate rising 1.1 percentage points to 7.4%. Other big rises were seen in Memphis, Tenn., Indianapolis, Raleigh and Tacoma.

The deteriorating rental mar-

ket comes amid some signs of stabilization in the housing sales market. An \$8,000 tax credit for first-time home buyers and investor demand helped to boost sales of low- and moderately priced homes this summer. But some analysts warn demand could fall with the expiration of the tax credit and supply could increase with more foreclosed homes hitting the market.

While a housing recovery could lead the best quality renters to move out and purchase homes, the move-out rate isn't expected to surpass levels seen during the housing boom earlier this decade. Mortgage credit standards have tightened considerably since then, which should keep more renters in place.

Apartment owners ultimately could gain from the housing bust because the U.S. homeownership rate has fallen as foreclosures rise. But the housing bust has also flooded some of the most overbuilt housing markets with new apartment inventory as developers have converted unsold condominium developments into rentals.

Reis projects that the vacancy rate will peak at well above 8% in mid-2010.

W.S.J.  
10/26/09



## PART TWO – FACTUAL DATA

C16 Wednesday, October 14, 2009

THE WALL STREET JOURNAL

## HEARD ON THE STREET

Email: heard@wsj.com

Financial Analysis and Commentary

More at WSJ.com/Heard

## Builders Grounded by Land Prices

Glimmers of a home-price recovery mean that some home builders may soon return to the black. But, with prime land plots tough to find, investors shouldn't set their sights on healthy profit margins.

Over the past few years, many builders have shed some of their best land holdings and hoarded cash to strengthen balance sheets. Many expected to be able to restock at low prices when competitors fold, conscious that the last big property bust in the early 1990s led to plenty of cheap land sales.

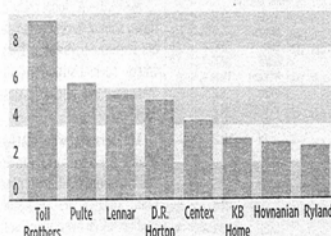
It hasn't yet worked out that way. Even with many private builders going bankrupt, the supply of desirable lots has run dry.

That's partly because many lenders who have taken possession of land are wary of selling while the market is soft. So land costs are rising in locations where builders are most keen to invest.

Take California, where the likes of **D.R. Horton** and **KB Home** have a sizable presence. In prime locations, prices of finished lots have

## Lay of the Land

Builders' land supply at June 30, in years



Source: Barclays Capital

risen 10% to 30% in the last four months, according to Jeff Spindler of land brokerage Park Place Land Advisors.

Publicly listed builders have accounted for the majority of bidders at auctions of such finished lots, Mr. Spindler says. While land prices in remote areas have been more stable, major builders have been focused on densely populated areas where homes are expected to sell quickly.

The risk is that builders are betting on higher housing prices to justify paying up for land. But if home prices

don't keep pace, builders could see margin growth stifled. Citigroup's Josh Levin says the median gross margin for public builders is around 13%, compared with roughly 20% before the bubble.

Builders with the least land could be expected to buy most aggressively. KB Home, for instance, has land sufficient for only 3.3 years worth of building needs based on construction rates over the past year, according to Barclays Capital's Megan McGrath. That compares with an industry average of about 5.1 years.

And those estimates could exaggerate the true supply, since they include both finished lots and raw land. The latter requires thousands of dollars in additional investment per lot, so it's unlikely to be used until home prices increase substantially.

Horton may also feel pressure to refill its land bank. The company still has 5.4 years of supply, but the number of owned lots has fallen 32% in the year through June, Ms. McGrath estimates.

And yet, stock valuations suggest hopes for a smooth return to profitability. Ms. McGrath says Horton trades at 1.5 times tangible book value, while KB Home is at 1.9 times.

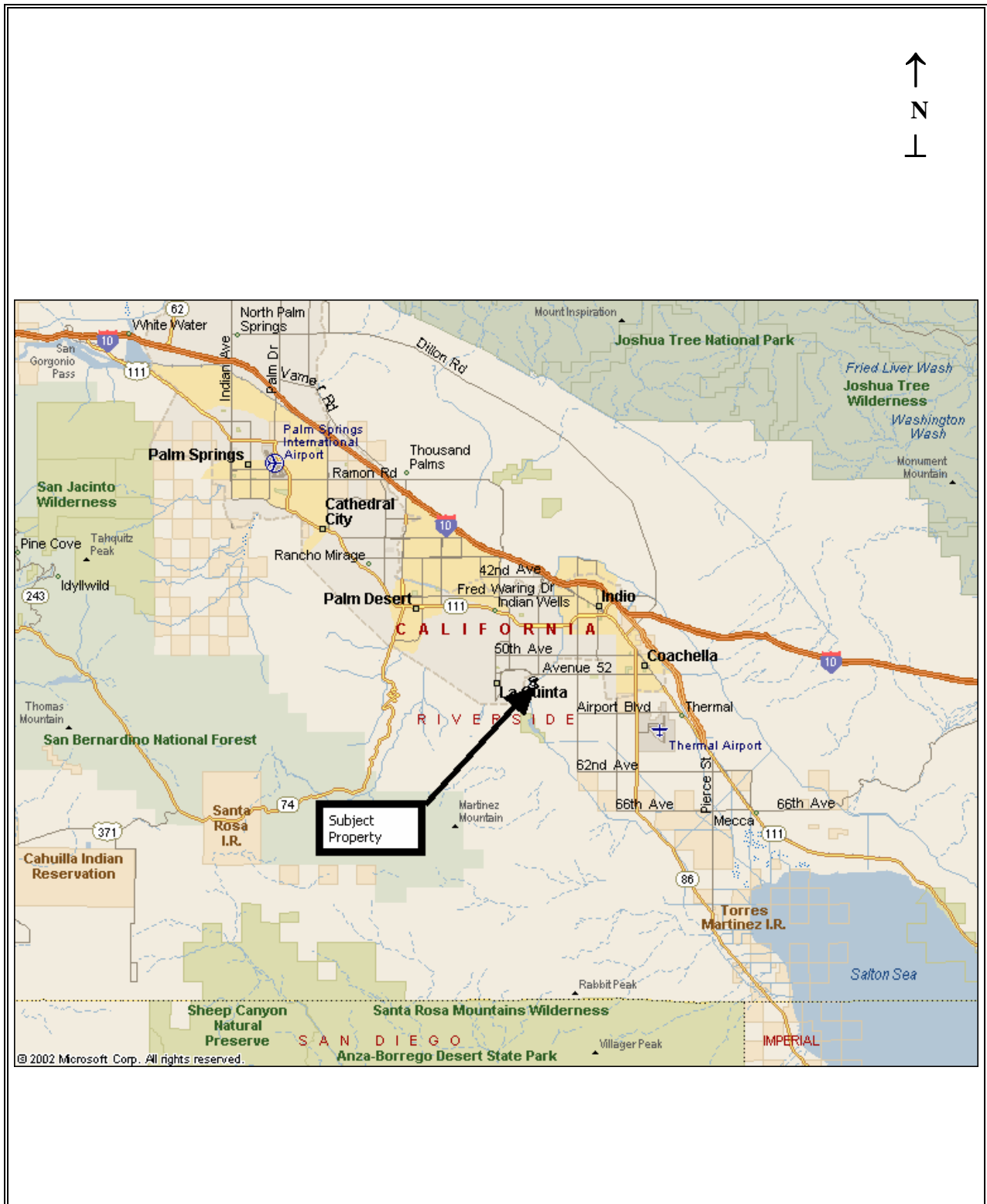
Those are roughly in-line with the industry's long-term average of 1.6 times. But that long-term average mostly reflects years when retained earnings were causing book values to grow.

With major builders still bleeding red, their stocks are dependent on a swift home-price rebound.

—John Jannarone

PART TWO – FACTUAL DATA

NEIGHBORHOOD MAP



---

**SITE DATA**

---

**Overview:**

The neighborhood or district is defined as the physical area that influences the value of the subject property. The neighborhood analysis provides a bridge between the analysis of general influences on all property values and the study of a particular subject property. The goal of the neighborhood analysis is to determine how the operation of social, economic, governmental and environmental forces influence property values in the specific area in which the subject is located. Neighborhood analysis is designed so that the reader can make meaningful conclusions about the neighborhood's relative desirability, value trend, and impact on the subject property's future desirability and present value. The analysis provides a basis for determining the stage that properties may be at in a neighborhood's life cycle and may indicate future land uses and value trends for the properties.

The subject's district is located in the southeast portion of the City of La Quinta in the County of Riverside, California 92253. The following are major characteristics of the district that will influence the value of the subject property:

**A. SOCIAL:**

Social characteristics relate to the occupants' motivations for developing or working in district.

**1. Population characteristics and growth statistics, percent built-up, and what is the impact on value:**

The subject area is located within the PGA West Residential and Golf Development. This resort development is approximately 99% built out with the subject property the only new development under construction.

**2. Occupancy, including owners and tenants:**

Approximately 99% of the land is built-up. Most owners are developers.

**3. Availability of labor:**

There is a good labor supply available in the area. The southern Coachella Valley has some of the lowest housing cost in the area, which has attracted workers for local employment.

**4. Proximity and character of surrounding development:**

The subject property's neighborhood consists of very exclusive country club developments.

**B. ECONOMIC:**

Economic characteristics of a district refer to the occupants' financial capacity to rent or own property and to maintain and rehabilitate it.

**SITE DATA**

---

**1. Consider the price range of sales, marketing time periods, number of properties currently on the market:**

The subject property is the only fractional interest development in the subject's neighborhood and regional area. However, within the PGA West development, there are approximately 8 homes currently for sale on the market that are similar in size to the subject property. The average number of days on the market for these properties is 120 days respectively.

**2. Amount of development. What are the current and potential competition identified and its impact on the subject property:**

There are individuals building custom homes within the Hideaway Club and Madison Club. Griffin Ranch is an exclusive gate equestrian community which has built and sold homes in the first phase. There are no fractional interest developments in the area.

**3. Available financing, mortgage ratios and rates:**

Financing for vacation homes and fractional interests has slowed down in the past 3 months due to the current economic crisis. However, traditional financing remains available for buyers with good to excellent credit.

**C. GOVERNMENTAL:**

Governmental characteristics considered in the district pertain to the regulations and taxes imposed on property and the administrative machinery needed to enforce legal compliance.

**1. Tax burden relative to services provided, compared with other districts in the community:**

The tax burden is considered average when compared to competing neighborhoods.

**2. Quality of fire and police protection and other governmental services:**

The quality of these services is considered good when compared to competing neighborhoods.

**D. ENVIRONMENTAL:**

Environmental characteristics identify any natural or man-made features that are contained in, or exert and effect on, a district.

**1. Land-use patterns and homogeneity, and their effects on value:**

Most of the present land use in the area is zoned residential.

**2. Land size and shape:**

The subject property is a fractional interest vacation development in various stages of development.